HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK
## Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

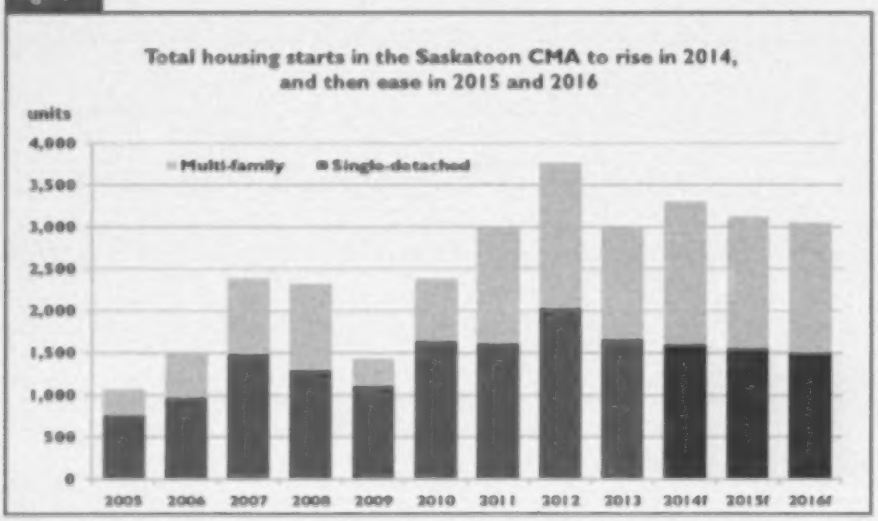
Date Released: Fall 2014

## Highlights[1]

- Housing starts will increase in 2014 before moderating in 2015 and 2016
- Resale activity to increase steadily under balanced market conditions, but price gains to remain modest
- Supply additions via new rental construction to lift apartment vacancies slightly over forecast period
- Net migration will moderate but remain elevated through 2016

Figure 1

**Total housing starts in the Saskatoon CMA to rise in 2014, and then ease in 2015 and 2016**




Source: CMHC, CMHC Forecast (f)

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 22, 2014.

[2] Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

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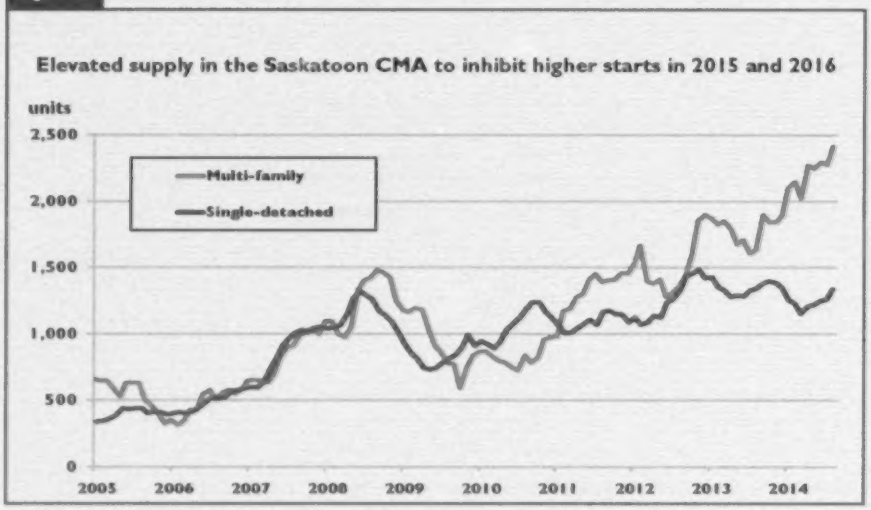
## New Home Market: After rising in 2014, housing starts to moderate over next two years

Total housing starts in the Saskatoon Census Metropolitan Area (CMA) are on pace to reach 3,300 units in 2014, up 11 per cent from 2,980 in 2013. Continued employment growth, elevated net migration, and declining inventory thus far in 2014 have prompted a faster pace of starts this year. However, with the volume of units under construction rising to a 34-year high in August, there is a risk that builders will face higher inventory in the months ahead. With slower employment growth and lower net migration expected through 2016, this will have a moderating effect on housing starts in Saskatoon over the next two years. A total of 3,125 and 3,050 housing starts are forecast for 2015 and 2016, respectively, which despite the reduction will remain among the highest in over 30 years.

Single-detached starts in Saskatoon are projected to reach 1,600 units in 2014, down from 1,658 in 2013. A shift in housing demand towards lower-price options offered by the multi-family sector, as well as competition from a well-supplied resale market, has reduced single-detached construction this year. Moving forward, single-detached starts will decline further to 1,550 units in 2015 and to 1,500 in 2016, as employment growth and net migration moderate.

Local builders initiated 1,071 single-detached units to the end of August 2014, little changed from 1,082 in the same period a year earlier. Meanwhile, the inventory of complete and unabsorbed single-detached homes was 14 per cent lower at 199 units in August, under the same comparison. Despite the decline, the level of inventory remained higher than the five-year average of 161 units. With 90 per cent of the complete and unabsorbed inventory consisting of spec homes, builders could face higher inventory in the months ahead.

Figure 2




Source: CMHC

Saskatoon's increased production capacity in the new home market in recent years should help alleviate some of the upward pressure on contractor's selling prices brought on by an elevated volume of units under construction this year. To this end, we expect Statistics Canada's New House Price Index (NHPI) to rise by 2.7 per cent in 2014, before moderating to gains below two per cent in 2015 and 2016 as the number of units under construction move lower. Correspondingly, the average absorbed price for a single-detached home in Saskatoon is forecast to rise to $451,000 in 2014, before increasing further to $457,000 in 2015 and to $463,500 in 2016.

Multi-family starts, which consist of semi-detached units, rows and apartments, are on pace to reach 1,700 units in 2014, up 29 per cent from 1,322 in 2013. This will mark the first time in 10 years that multi-family starts will have surpassed single-detached starts. The combination of declining multi-family inventory and increased demand for lower-priced options such as condominium townhouses and apartments in Saskatoon has resulted in more multi-family projects being initiated this year. Moving forward, with the number of multi-family units under construction at a 30-year high in the summer of 2014, the risk is that inventory will rise in the coming months as these units are completed, particularly if employment growth and net migration continue to moderate. This will lead to a reduction in multi-family starts to 1,575 units in 2015. Barring a significant inventory drawdown, a further reduction to 1,550 multi-family starts is projected for 2016.

To the end of August 2014, local builders initiated 1,315 multi-family units, up 96 per cent from the same period one year prior. Apartment units in the ownership and rental markets

represented more than 72 per cent of this total. With the number of units absorbed at completion averaging higher this year than last, the inventory of complete and unabsorbed multi-family units was at 245 in August, lower than earlier in the year, but unchanged from August 2013.

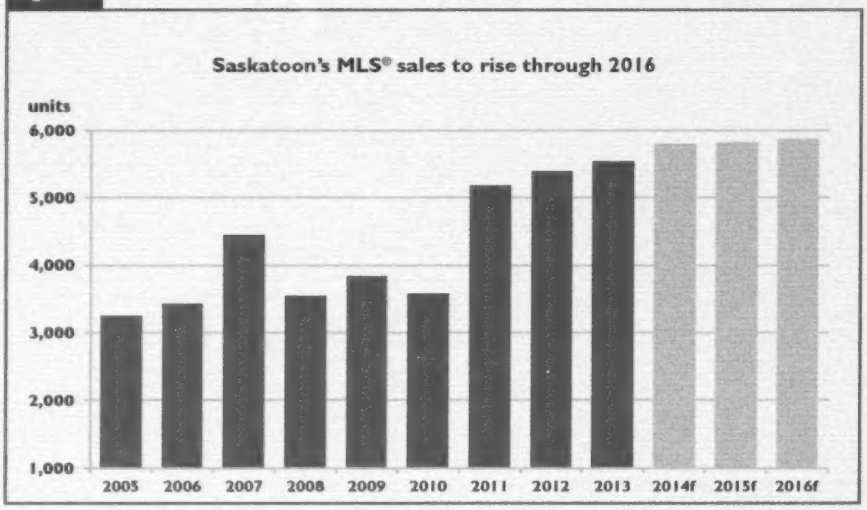
## Existing Home Market: MLS® Sales to Edge Higher Through 2016

Resale activity in the Saskatoon CMA is on pace to rise 4.6 per cent to 5,800 MLS® sales in 2014, supported by continued employment growth and elevated net migration. Slightly higher mortgage rates towards the latter part of 2015 will moderate the growth in sales next year, yielding a total of 5,825 resale transactions. With employment growth and net migration expected to moderate, a slight increase to 5,875 MLS® sales is forecast for 2016.

Demand and supply conditions in Saskatoon's resale market remain largely balanced so far this year. We expect these conditions to persist throughout the forecast period. Move-up buying and builders listing new homes on the MLS® have contributed to higher listings. In August, active listings numbered 2,948 units, six per cent higher than in the same month a year earlier. As a result, the sales-to-active listings ratio was 17.7 per cent in August, down marginally from 18.2 per cent in August 2013.

Under these conditions, resale price growth has remained moderate. In 2014, the average MLS® price is projected to rise 2.8 per cent to $341,300, a modest gain compared to the past two years. Similar gains

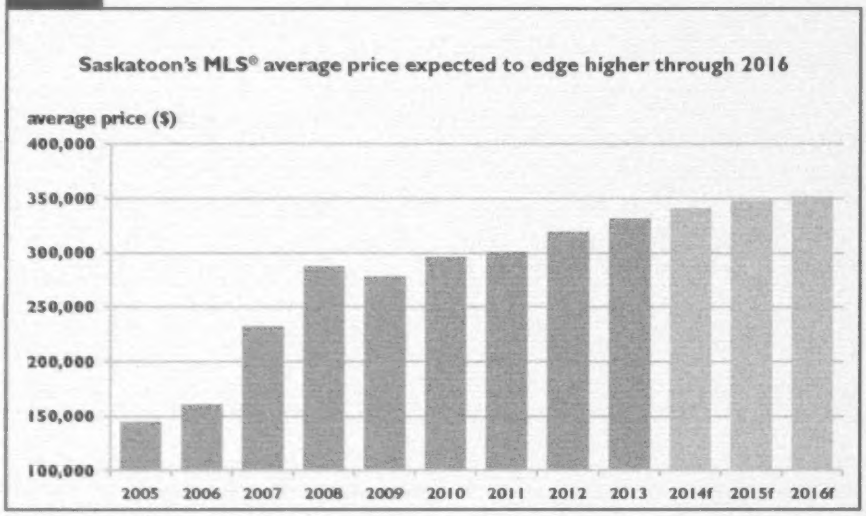
Figure 3




Source: CREA, CMHC Forecast (f)

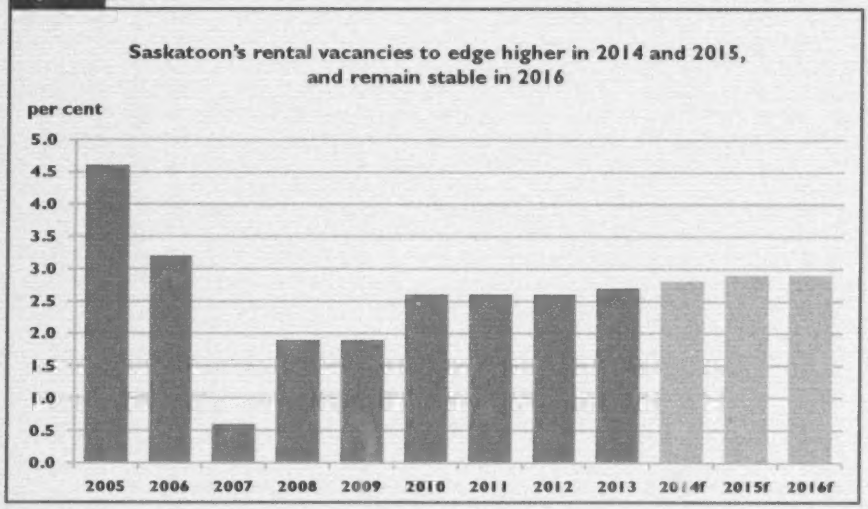
are expected over the next two years, with the average MLS® price forecast to reach $348,000 in 2015 and $352,000 in 2016. Thus far in 2014, compositional factors have contributed to the upward pressure on the average resale price. To the end of August 2014, the share of homes selling above $400,000 rose to 28 per cent, compared to 24 per cent in the corresponding period of 2013. Moving forward, we expect rising carrying costs, slightly higher mortgage rates, and weaker equity gains to slow the shift towards higher priced homes, thus keeping gains is the average

Figure 4




Source: CREA, CMHC Forecast (f)

Figure 5




Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

resale price modest throughout the forecast period.

## Rental Market: Modest Increases in Vacancies and Rents Through 2016

Saskatoon's rental apartment vacancies are projected to rise slightly to 2.8 per cent in October 2014, as builders add supply via new construction and more renter households move into homeownership. In October 2015, the vacancy rate is expected to reach 2.9 per cent and remain there over the fall of 2016. Local builders have continued to respond to sustained rental demand brought on by elevated net migration by initiating more rental apartments. To the end of August 2014, a total of 340 apartments for rental tenure were started. This is in addition to the 185 units initiated in all of 2013. Once completed, these units will offer additional supply for renters, thus putting upward pressure on vacancies.

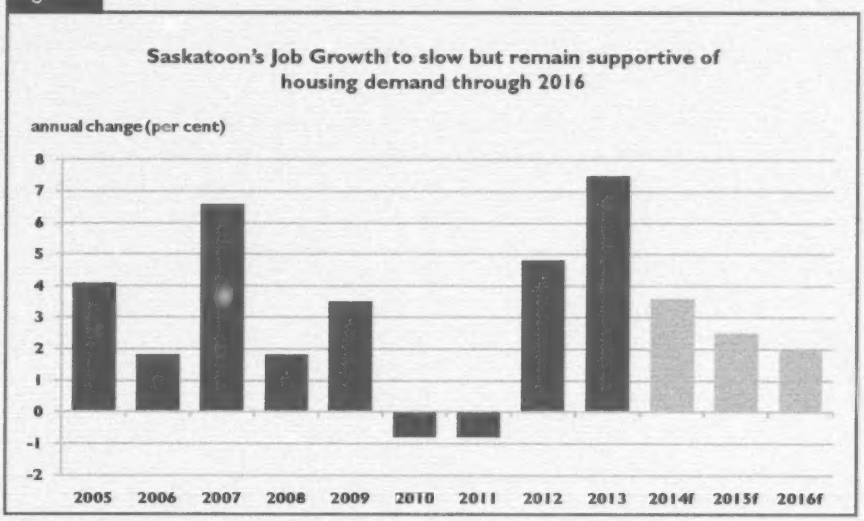
With the apartment vacancy rate rising to the highest level since 2006, there will be less support to introduce strong rent increases. Nonetheless, the addition of newly completed units to the rental universe at higher price points will help push up the average monthly rent for a two-bedroom apartment in Saskatoon to $1,085 in 2014, compared to $1,041 in the previous year. In 2015 and 2016, the average two-bedroom apartment rent is projected to reach $1,115 and $1,135, respectively.

## Economic Trends: Job Growth and Net Migration to Slow but Remain Supportive of Housing Demand

After a record 7.5 per cent gain in 2013, average employment in Saskatoon is projected to increase at a slower pace. Continued capital spending on infrastructure, institutional, and resource expansion projects will expand average employment by 3.6 per cent this year. A moderation in building permit values and labour shortages in some sectors will slow the pace of job growth in the next two years. Accordingly, gains of 2.5 per cent and 2.0 per cent are forecast for 2015 and 2016, respectively.

To the end of August 2014, a total of 7,000 jobs were created in Saskatoon, compared to 10,600 in the corresponding period of 2013. Close to 53 per cent of all jobs created were

Figure 6




Source: Statistics Canada, CMHC Forecast (f)

in full-time positions. The moderation of full-time job growth through August resulted in a marginal increase in average weekly earnings to $946 from $942 in the same period one year prior. With employment expansion surpassing the pace of additions to the labour force, Saskatoon's unemployment rate averaged 4.1 per cent in August 2014, down from 4.3 per cent in August 2013. We expect the rate to move up slightly to 4.2 per cent by year end. Moving forward, Saskatoon's labour market is expected to generate higher wages and an average unemployment rate of 4.3 per cent in 2015 and of 4.4 per cent in 2016.

Total net migration to the Saskatoon CMA is projected to decrease to 8,500 people in 2014 from 9,219 in the previous year. While Saskatoon's continued employment opportunities, low unemployment rate, and rising wages have attracted more than 18,000 migrants to the city in the past two years, improving economies outside of Saskatchewan, particularly in Alberta, will continue to reduce the number of migrants coming to the region. To this end, net migration to Saskatoon is forecast to ease further to 8,000 people in 2015 and 7,900 people in 2016. Despite the reduction, net migration will continue to support population growth, new household formation, and housing demand in Saskatoon throughout the forecast period.

## Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

## Trends at a Glance

| Key Factors and their Effects on Housing Starts | |
|---|---|
| Mortgage Rates | Mortgage rates will remain low by historical standards and supportive of housing demand. |
| Employment | A slower employment expansion will impact demand for newly constructed homes moving forward. |
| Income | Rising average weekly earnings will continue to support housing demand in the new home market. |
| Population | Slowing net migration to Saskatoon will moderate housing starts through 2016. |
| Resale Market | Increased supply of resale homes will lead to a more competition and a slower pace of housing starts in 2015. |
| New Home Inventory | Lower inventory in the new home market is supporting more housing starts in 2014. However, the rise in the number of units under construction increases the risk of inventory moving higher, which will restrain starts through 2016. |

## Forecast Risks

This outlook is subject to some risks, including:

- A stronger than expected U.S. economic expansion or stronger growth in emerging countries could lead to higher global commodity prices, which would positively impact the Saskatchewan economy through stronger exports. This could lead to stronger employment growth and net migration, thus higher housing activity than is currently forecast.
- An inordinate rise in new home inventory over the next several months, particularly in the multi-family sector, could either delay or reduce the size of certain housing projects. This would lead to a sharper reduction in total housing starts over the forecast period than is currently projected.
- A greater moderation in employment growth and net migration to Saskatoon over the forecast period would lead to a more pronounced reduction in total housing starts than is currently expected.

| Forecast Summary<br>Saskatoon CMA<br>Fall 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014(F) | % chg | 2015(F) | % chg | 2016(F) | % chg |
| **New Home Market** | | | | | | | | | |
| **Starts:** | | | | | | | | | |
| Single-Detached | 1,608 | 2,025 | 1,658 | 1,600 | -3.5 | 1,550 | -3.1 | 1,500 | -3.2 |
| Multiples | 1,386 | 1,728 | 1,322 | 1,700 | 28.6 | 1,575 | -7.4 | 1,550 | -1.6 |
| Starts - Total | 2,994 | 3,753 | 2,980 | 3,300 | 10.7 | 3,125 | -5.3 | 3,050 | -2.4 |
| **Average Price ($):** | | | | | | | | | |
| Single-Detached | 389,580 | 408,491 | 437,880 | 451,000 | 3.0 | 457,000 | 1.3 | 463,500 | 1.4 |
| **Median Price ($):** | | | | | | | | | |
| Single-Detached | 360,000 | 370,000 | 409,900 | 429,000 | 4.7 | 436,000 | 1.6 | 442,000 | 1.4 |
| New Housing Price Index (% chg.) | 1.4 | 2.3 | 1.5 | 2.7 | - | 1.9 | - | 1.8 | - |
| **Resale Market** | | | | | | | | | |
| MLS® Sales | 5,183 | 5,398 | 5,543 | 5,800 | 4.6 | 5,825 | 0.4 | 5,875 | 0.9 |
| MLS® New Listings | 10,284 | 10,217 | 11,385 | 12,600 | 10.7 | 12,750 | 1.2 | 12,925 | 1.4 |
| MLS® Active Listings | 2,154 | 2,197 | 2,431 | 2,675 | 10.0 | 2,775 | 3.7 | 2,850 | 2.7 |
| MLS® Average Price ($) | 301,232 | 319,469 | 332,058 | 341,300 | 2.8 | 348,000 | 2.0 | 352,000 | 1.1 |
| **Rental Market** | | | | | | | | | |
| October Vacancy Rate (%) | 2.6 | 2.6 | 2.7 | 2.8 | 0.1 | 2.9 | 0.1 | 2.9 | 0.0 |
| Two-bedroom Average Rent (October) ($) | 966 | 1,002 | 1,041 | 1,085 | 4.2 | 1,115 | 2.8 | 1,135 | 1.8 |
| **Economic Overview** | | | | | | | | | |
| Mortgage Rate (1 year) (%) | 3.52 | 3.17 | 3.08 | 3.00 - 3.25 | - | 3.20 - 4.00 | - | 3.70 - 4.60 | - |
| Mortgage Rate (5 year) (%) | 5.37 | 5.27 | 5.24 | 5.00 - 5.50 | - | 5.25 - 6.00 | - | 5.55 - 6.45 | - |
| Annual Employment Level | 144,700 | 151,500 | 162,900 | 168,764 | 3.6 | 172,984 | 2.5 | 176,443 | 2.0 |
| Employment Growth (%) | -0.8 | 4.7 | 7.5 | 3.6 | - | 2.5 | - | 2.0 | - |
| Unemployment rate (%) | 5.6 | 5.6 | 4.1 | 4.2 | - | 4.3 | - | 4.4 | - |
| Net Migration [1] | 4,919 | 9,463 | 9,219 | 8,500 | -7.8 | 8,000 | -5.9 | 7,900 | -1.3 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 22, 2014.

# DEFINITIONS AND METHODOLOGY

## New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

**Single-Detached Start:**
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

**Semi-Detached Start:**
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

**Row (or Townhouse) Start:**
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

**Apartment and other Starts:**
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

**Average and Median Single Detached Home Prices:**
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

**New Home Price Indexes:**
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

## Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

**MLS® (Centris® in the province of Quebec) Sales:**
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

**MLS® (Centris® in the province of Quebec) Average Price:**
Refers to the average annual price of residential transactions through the Multiple Listings Services.

## Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

## Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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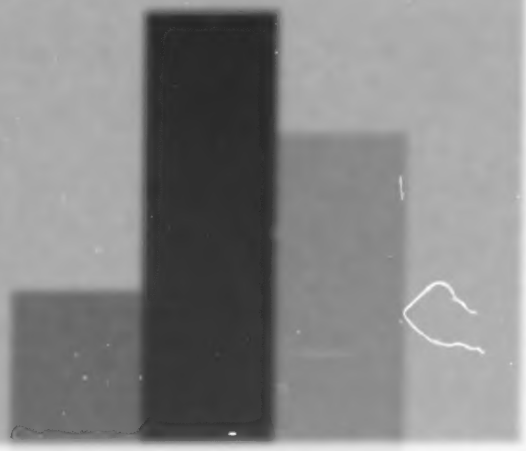

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